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Linda McCulloch
Superintendent

January 11, 2002

To: Senator Linda Nelson, Chairperson
Education and Local Government Interim Committee

From: State Superintendent Linda McCulloch

Subject: House Bill 625 – Preliminary Report

Madam Chair and Members of the Committee:

Thank you for the opportunity to share my comments and concerns regarding the report of the Governor's K-12 Public School Funding Study Advisory Council. The Governor created the council, with input from my office, to assist in conducting a "study of funding K-12 public schools and related issues" as required by House Bill 625 (L. 2001).

I commend the nine-member council for its time and effort in developing the recommendations contained in the report. I would like to acknowledge the staff of the Office of Budget and Program Planning, the Office of Public Instruction, the Department of Revenue, the Legislative Fiscal Division and the Legislative Audit Division for their work in gathering and analyzing data and presenting issues to the council for consideration. I would also like to recognize the school district personnel and members of the public who served on the Fund Structure Working Group. In order for the council to complete its work in a timely manner, all of these people had to work diligently to complete the tasks assigned to them. I appreciate their efforts and join the Governor in expressing my thanks to them.

Overall, I support the council recommendations and believe that the proposals will:

- spread the burden of funding for public schools more equitably among property taxpayers;
- build a more stable funding base for academic programs by cushioning the impacts of declining enrollments and rising health insurance costs;
- simplify the transportation funding structure for schools; and
- recognize that the impacts of inflation on the cost of education services.

COUNCIL RECOMMENDATIONS

I will go through each of the Advisory Council's recommendations and my brief response to them.

- **Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.**

The analysis provided by the Council indicates that a countywide levy for the BASE budget of school districts will reduce the variation in taxpayer effort to fund school district general fund budgets and improve taxpayer equity. I encourage the committee to pursue this recommendation, including the recommendation that districts be allowed to use carry-over monies (i.e. fund balance reappropriated) and certain other district revenues to reduce the over-BASE portion of the general fund budget.

- **Expand county retirement levy to fund district health insurance costs.**

The rising cost of health insurance coverage for school district employees is making it increasingly difficult for school districts to fund other aspects of school district operations, including academic program offerings. To avoid compromising the educational programs of the district, it is essential to move health insurance costs out from under the general fund budget limitations and provide a mechanism for funding these costs. As proposed, it is likely to lead to significant property tax increases at the county level. I urge the committee to consider some mechanism for providing state support for this proposal.

- **Use a weighted GTB calculation for both the countywide BASE budget levy and the county retirement/insurance levy.**

This recommendation will simplify the calculation of guaranteed tax base (GTB) aid by establishing a uniform basis for calculating a county's eligibility for GTB.

- **Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session.**

The Office of Public Instruction proposed HB 163 during the 2001 legislative session as a way of simplifying an overly complex method of determining pupil transportation reimbursements to schools. The proposal has a \$3.4 million price tag for the state and counties, but will reduce district taxes by the same amount. I urge the committee to pursue this recommendation.

- **Calculate the average number belonging (ANB) for a district with declining enrollment by using average enrollment over a 3-year period.**

This recommendation will help cushion the impact of declining school enrollments. Using a three-year average will allow districts to better plan for changes in facility usage and program offerings. The money currently exists in the state budget to fund this proposal. In the 2003 biennium, the state cost of public school support would have declined by approximately \$31 million if no increases had been provided in the per-pupil funding rates. Projected "enrollment

savings” in the upcoming biennium could be used to fund the approximately \$30 million biennial cost of this proposal. I urge the committee to pursue this proposal.

- **Provide an annual inflator tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.**

It is important to recognize inflation in the cost of education services similar to the inflationary increases that are provided in other portions of the state budget. The Present Law Budget for state aid to K-12 public schools does not build in any increases for inflation; thus, the message sent to the legislature is that schools can provide the same level of quality and services in the upcoming biennium at no additional cost per-student. This expectation is not realistic. Education is a labor-intensive business. Approximately 75% of all school district expenditures are for salaries and benefits. The budget process needs to anticipate pay raises for teachers and other school district employees as well as increases in other areas of school district expenditures. Incorporating an annual inflator, tied to the Consumer Price Index, for the basic entitlement, per-ANB entitlement, and special education funding will help recognize inflation in the cost of education services.

I urge the committee to seriously consider this proposal as a way of recognizing that school district budgets are being affected by inflation in addition to declining enrollments.

- **Use the HB 124 block grant for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.**

One of the problems with the HB 124 block grant system is that it does not respond over time to shifts in school district financial resources and priorities. By redirecting the monies that are presently distributed as block grants for debt service, this proposal will target monies to low-wealth school districts that have incurred general obligation debt. I urge the committee to pursue this proposal.

- **Allow school trustees to allocate the remaining balance of the district’s HB 124 block grants to any budgeted fund of the district.**

This proposal will allow school districts more flexibility in the allocation of HB 124 block grant monies and allows the trustees to adjust to changing needs and priorities.

I urge the committee to pursue this proposal.

AREAS FOR FURTHER STUDY

- **Further pursue concept of comprehensive study of the adequacy of school funding in Montana.**

I concur with the Council that a comprehensive study is needed of the adequacy of funding for Montana’s K-12 school system. In order for that study to be meaningful, Montanans need to engage in a dialogue about our collective expectations for the K-12 school system. We cannot determine the adequacy of our system until those expectations have been established.

- **Further explore concept of creating single Capital Projects Fund to serve purposes of existing funds for bus depreciation, building, building reserve, technology acquisition and lease or rental agreements.**

As the council report indicates, there are several details to be ironed out regarding this concept. I urge the committee to pursue this proposal and find a workable solution to the concerns regarding voting requirements and budget authority.

- **Further pursue recommendations of Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries**

My office supported the recommendation of the Task Force on Teacher Shortages/Teacher Salaries that were presented to the 2001 legislature. I continue to believe that these recommendations have merit and should be tried as tools for recruiting and retaining qualified teachers.

Over the next several months, Montanans will have an extensive opportunity to review, comment on, and propose alternatives to the recommendations in the council's report. I look forward to the dialogue and I offer the cooperation and assistance of my staff at the Office of Public Instruction to the Education and Local Government Committee as you take the K-12 Public School Funding Study into its next phase. Please let us know whenever we can be of assistance to you.

Thank you for this opportunity to address your Legislative Interim Committee on Education and Local Government, a committee in which I also served during my time in the Legislature. And, thank you for your good work for the students in Montana's K-12 public schools.